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PRESCRIPTION DRUG PRICE DISCRIMINATION

**Prescription Drugs Are More Expensive in Sonoma County
than in Canada, Europe, and Japan**

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EXECUTIVE SUMMARY

The high cost of prescription drugs poses a severe financial hardship for millions of senior citizens in the United States. Because Medicare does not cover the cost of prescription drugs, seniors must often spend thousands of dollars on prescription drugs each year, forcing many to skip the medications they need.

One of the root causes of high drug prices is price discrimination by drug manufacturers. The United States is the only developed country that does not protect its consumers from drug price discrimination. As a result, prescription drug prices for seniors without drug coverage in the United States far exceed the prices charged in other developed nations.

Rep. Lynn C. Woolsey asked the Special Investigations Division of the minority staff of the Committee on Government Reform to quantify the extent of this price discrimination in Sonoma County. This report compares the prices paid by seniors in Sonoma County for the five most popular brand-name prescription drugs used by seniors with the prices paid for the same drugs by purchasers in Canada, France, Germany, Italy, Japan, and the United Kingdom. The report finds:

- **Seniors in Sonoma County pay far more for prescription drugs than purchasers in other countries.** Seniors in Sonoma County who lack drug coverage must pay, on average, almost twice as much for the five most popular drugs as purchasers in foreign countries. The prices for the five drugs for uninsured seniors in Sonoma County are 159% higher than in the U.K., 138% higher than in Canada, and 128% higher than in France
- **For some drugs, seniors in Sonoma County pay over three times the price paid by purchasers in other countries.** Zocor is a cholesterol medication manufactured by Merck. A monthly supply of this drug costs only \$37.20 in France, but a senior in Sonoma County without drug coverage must pay \$123.96, over three times as much. Similarly, a monthly supply of the ulcer medication Prevacid costs only \$42.00 in the U.K., compared to \$134.26 in Sonoma County, also over three times as much.
- **Price differentials are substantial in dollar terms.** All five of the medications analyzed in this report are used to treat chronic conditions and are taken for months or years at a time. As a result, seniors in Sonoma County must spend hundreds of dollars more each year than foreign purchasers for each of the five drugs. An uninsured senior in Sonoma County will spend over \$1,100 more than a purchaser in the U.K. for a one-year prescription of Prevacid; over \$1,000 more than a purchaser in France for a one-year prescription of Zocor; and almost \$900 more than a purchaser in Canada for a one-year prescription of Prilosec.

The High Cost of Prescription Drugs for Seniors

The high cost of prescription drugs causes severe problems for millions of senior citizens in the United States. Because they suffer from more health problems, seniors use more prescription drugs than other age groups. Estimates by the Congressional Budget Office (CBO) indicate that Medicare beneficiaries will spend \$100 billion on prescription drugs in 2003, accounting for over 40% of U.S. drug spending.¹ The average senior is using over four prescriptions at any given time² and uses over \$2,000 worth of prescription drugs annually. An estimated one of every nine seniors uses over \$5,000 worth of prescription drugs annually.³

These expenditures are increasing rapidly. CBO estimates that prescription drug spending by Medicare beneficiaries will increase by over 13% in 2003 and more than double within the next six years.⁴ Much of this increased spending is driven by drug price inflation, which in recent years has increased at twice the overall inflation rate.⁵

Rising drug prices and heavy spending on prescription drugs cause hardships for seniors because Medicare does not cover most prescription drug expenditures and many seniors have no other coverage. Surveys indicate that almost 40% of seniors — an estimated 11 million seniors — have no drug coverage.⁶ Problems are particularly acute for low-income seniors, seniors over the age of 85, and seniors in rural areas, all of whom are more likely to be without drug coverage.⁷

¹ Congressional Budget Office, *Spending on Prescription Drugs by or for Medicare Enrollees, March 2002 Baseline Projections* (Mar. 2002).

² Dana Gelb Safran et al., *Prescription Drug Coverage and Seniors: How Well Are States Closing the Gap?*, Health Affairs (Aug. 2002).

³ *Id.*

⁴ Congressional Budget Office, *supra* note 1.

⁵ Bureau of Labor Statistics, *Consumer Price Index, All Urban Consumers: Prescription Drugs and Medical Supplies* (2003).

⁶ Mary A. Laschober et al., *Trends in Medicare Supplemental Insurance and Prescription Drug Coverage, 1996-1999*, Health Affairs (Feb. 27, 2002).

⁷ *Id.*

Even when seniors have prescription drug coverage, the coverage often does not meet their needs. In previous years, many seniors have counted on Medicare managed care plans or Medigap plans. But the costs of Medigap plans are rising rapidly, and the drug coverage they offer is often inadequate.⁸ Medicare managed care plans are also sharply reducing benefits and coverage. These plans have dropped coverage for almost two million seniors in recent years,⁹ and analysts have found that they offer few significant benefits to seniors who are covered.¹⁰ Even retirees with employer-sponsored prescription drug coverage are facing decreased benefits and are being forced to pay an increasing share of drug costs.¹¹

The high cost of prescription drugs and the lack of prescription drug coverage cause enormous hardships for older Americans, often leaving them unable to afford the drugs they need. One recent survey found that one in four uninsured seniors reported either not filling prescriptions or skipping doses of necessary medications because of their high cost.¹²

Prescription Drug Price Discrimination

One of the principal causes of the high cost of prescription drugs for seniors is price discrimination by drug manufacturers. In the United States, drug manufacturers are not prevented from charging higher prices for drugs intended for use by uninsured consumers, such as seniors on Medicare, than for other purchasers who have market power. As CBO reported, “[d]ifferent buyers pay different prices for brand-name prescription drugs. . . . In today’s market for outpatient prescription drugs, purchasers that have no insurance coverage for drugs . . . pay the highest prices for brand-name drugs.”¹³ The Federal Trade Commission has reached the same conclusion, reporting that drug manufacturers

⁸ See Families USA, *Failing America’s Seniors: Private Health Plans Provide Inadequate Drug Coverage* (May 2002). For example, the cost of Medigap plans offering prescription drug coverage increased by an average of 37% between 1998 and 2000. Mary A. Laschober et al., *supra* note 6.

⁹ Mary A. Laschober et al., *supra* note 6.

¹⁰ Families USA, *supra* note 8.

¹¹ Henry J. Kaiser Foundation, *Erosion of Private Health Insurance Coverage of Retirees* (Apr. 2002).

¹² Dana Gelb Safran et al., *supra* note 2.

¹³ Congressional Budget Office, *How Increased Competition from Generic Drugs Has Affected Prices and Returns in the Pharmaceutical Industry*, xi (July 1998) (emphasis added).

use a “two-tiered pricing structure” under which they “charge higher prices to . . . the uninsured.”¹⁴

In other industrialized countries, purchasers are protected from manufacturer price discrimination. Different countries use a variety of approaches to ensure that purchasers are protected from high prices. For example:

- In Canada, the country’s Patented Medicine Prices Review Board requires that the prices of new brand-name drugs not exceed the average price of the same drugs in seven other industrialized countries.¹⁵
- In Italy, the government uses a similar approach, refusing to reimburse manufacturers for a drug if its price exceeds a 12-country European average price.¹⁶
- In France, Germany, and Japan, maximum prices for each drug are based on the therapeutic value of the drug.¹⁷ Prices for new drugs are determined by comparing them with similar drugs that are already on the market. Prices are also based upon the safety and effectiveness of the drug; drugs that are shown to be safer or more effective than existing drugs are priced higher.
- In the United Kingdom, drug companies are free to establish their own prices on individual drugs. However, under the country’s pharmaceutical laws, the maximum profit that drug manufacturers can earn on sales in the United Kingdom is limited to 17%.¹⁸

While the methods used by these countries vary, the results are the same: purchasers are protected from price discrimination and therefore pay significantly less for prescription drugs than uninsured consumers in the United States.

¹⁴ Federal Trade Commission, *The Pharmaceutical Industry: A Discussion of Competitive and Antitrust Issues in an Environment of Change*, 75 (Mar. 1999).

¹⁵ See Patented Medicine Prices Review Board, *Eleventh Annual Report for the Year Ending December 31, 1998* (1999).

¹⁶ See *The New Pharmaceutical Policy in Italy*, Health Policy, 46, 21–41 (1998).

¹⁷ See Congressional Research Service, *Determination of Prescription Drug Prices in France, the United Kingdom, and Italy* (Sept. 11, 2000); United States International Trade Commission, *Pricing of Prescription Drugs*, Investigation No. 332-419, Publication 3333 (Dec. 2000); Boston Consulting Group, *Ensuring Cost-Effective Access to Innovative Pharmaceuticals: Do Market Interventions Work?* (Apr. 1999).

¹⁸ United States International Trade Commission, *supra* note 17.

Purpose of This Report

To assess the impact of prescription drug price discrimination on seniors in Sonoma County, Rep. Lynn C. Woolsey asked the Special Investigations Division of the minority staff of the Government Reform Committee to conduct an international comparison of the prices of prescription drugs frequently used by seniors. Rep. Woolsey represents California's 6th Congressional District, which includes Sonoma County. Specifically, Rep. Woolsey requested that the Special Investigations Division compare the prices paid for popular brand-name prescription drugs by uninsured seniors in Sonoma County with the prices paid for the same drugs by purchasers in Canada, France, Germany, Italy, Japan, and the United Kingdom. This report presents the results of the investigation.

METHODOLOGY

Selection of Drugs

The drugs examined in this report are the five brand-name prescription drugs with the highest annual sales to seniors in 2002. The list was obtained from the Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE). The PACE program is the largest out-patient prescription drug program for older Americans in the United States for which claims data is available.¹⁹ PACE data is used in this study, as well as by several other analysts, as an indicator of prescription drug usage by all older Americans. Over 200,000 seniors are enrolled in the program, which provided over \$350 million of assistance in filling over nine million prescriptions annually.²⁰

Based on the PACE data, the five prescription drugs with the highest sales to seniors in 2002 were:

- Prilosec, an ulcer and heartburn medication manufactured by Astra/Merck;
- Plavix, an anti-platelet medication used to reduce the risk of heart attack and stroke in patients with high cholesterol, manufactured by Bristol-MyersSquibb;
- Zocor, a cholesterol-reducing medication manufactured by Merck;

¹⁹ Pharmaceutical Assistance Contract for the Elderly, Pennsylvania Department of Aging, *Top 50 NDCs by Expenditure and Claims Volume for Period January 1– December 31, 2002* (May 2003).

²⁰ *Id.*

- Prevacid, an ulcer and heartburn medication manufactured by TAP Pharmaceuticals; and
- Celebrex, an arthritis medication manufactured by Pharmacia and Upjohn.

Determination of Prices in Sonoma County

In order to determine the prices that senior citizens are paying for prescription drugs in Sonoma County, the staff of Rep. Woolsey's congressional office conducted a survey of seven drug stores, including both independent and chain stores. Average drug prices in the county were estimated by averaging the prices obtained from the surveyed drug stores. The average prices presented in this report include all discounts received by seniors in area drug stores.

Determination of Prices in Canada, Europe, and Japan

Prices for prescription drugs in Canada, Europe, and Japan were determined via a survey of pharmacies in six countries: Canada, France, Germany, Italy, Japan, and the United Kingdom. At the request of the Special Investigations Division, pricing surveys were conducted by the Office of NAFTA and Inter-American Affairs and the Office of the Foreign Commercial Service of the U.S. Department of Commerce in May 2003. All prices were obtained in local currency and converted to U.S. dollars using commercially available exchange rates in effect at the time of the survey.

None of the prices used in this report include any government contribution or subsidy. In Canada, provincial governments pay the cost of prescription drugs for children, the elderly, and the indigent. Some provincial governments pay for the cost of prescription drugs for other residents, while other provincial governments do not. Citizens who do not receive drug coverage from a provincial government must either pay for their own prescription drugs or obtain additional coverage, generally through their employer. The Canadian prices in this report are the retail prices paid by consumers with no drug coverage.

France, Italy, Japan, Germany, and the United Kingdom all provide universal prescription drug coverage for their citizens. Under these systems, pharmacists pay the wholesale price of the drug and add an appropriate retail markup for each prescription sold. If the drug is reimbursed by the country's health insurance plan, the pharmacist receives payment for the wholesale price of the prescription drug and the retail markup from the insurance plan. If the drug is not reimbursed, the consumer must pay the full retail cost, including the wholesale cost plus the pharmacy markup. For these countries, the prices presented in this report are the

prices that would be paid by a consumer whose purchase was not covered by the government health insurance plan.²¹

Selection of Drug Dosage

Prices were obtained for a monthly supply of each of the drugs. Each drug is generally taken once daily, and 30 tablets represent a monthly supply. For these drugs, the most popular forms and dosages were chosen based on information provided by the PACE program. The dosages, forms, and package sizes used in the study are shown in Appendix 1.²²

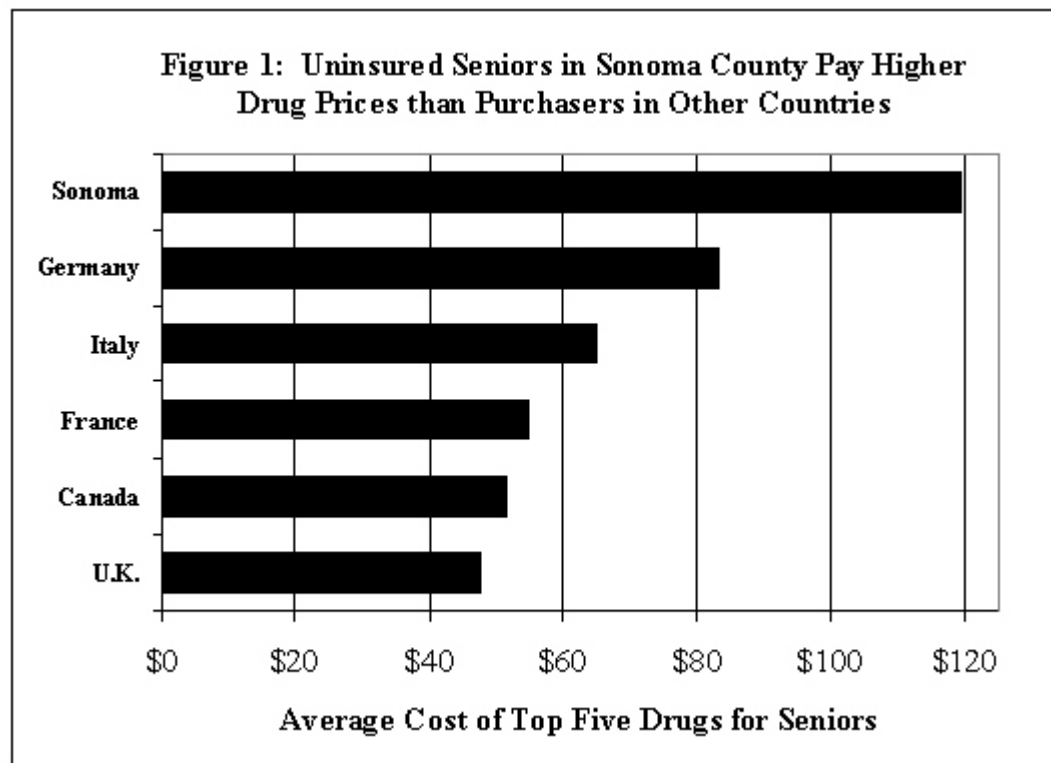
FINDINGS

Seniors in Sonoma County Pay Far More for Prescription Drugs than Purchasers in Other Countries

Prescription drug prices are substantially higher for uninsured seniors in Sonoma County than in Canada, France, Germany, Italy, Japan, and the United Kingdom. In Sonoma County, the average price for a one-month supply of the five most popular drugs for seniors is \$119.41. This is almost twice as much as the average price in the six foreign countries surveyed, \$63.57. Overall, the average price in Sonoma County for the five most popular drugs for seniors is 88% higher than the average price of the drugs in Canada, Europe, and Japan. Drug prices for uninsured seniors in Sonoma County are 159% higher than in the U.K., 138% higher than in Canada, and 128% higher than in France. Figure 1.

²¹ Although most prescription drug transactions in these countries are covered by government health insurance plans, there are a number of different types of transactions where consumers must pay the full retail costs. For example, citizens in these countries are sometimes prescribed drugs that for a number of reasons may not be reimbursed by government insurance plans.

²² In Japan, Plavix and Celebrex were not available. The overall average prices for these drugs thus consists of the average of the prices in Canada, France, Germany, Italy, and the U.K.

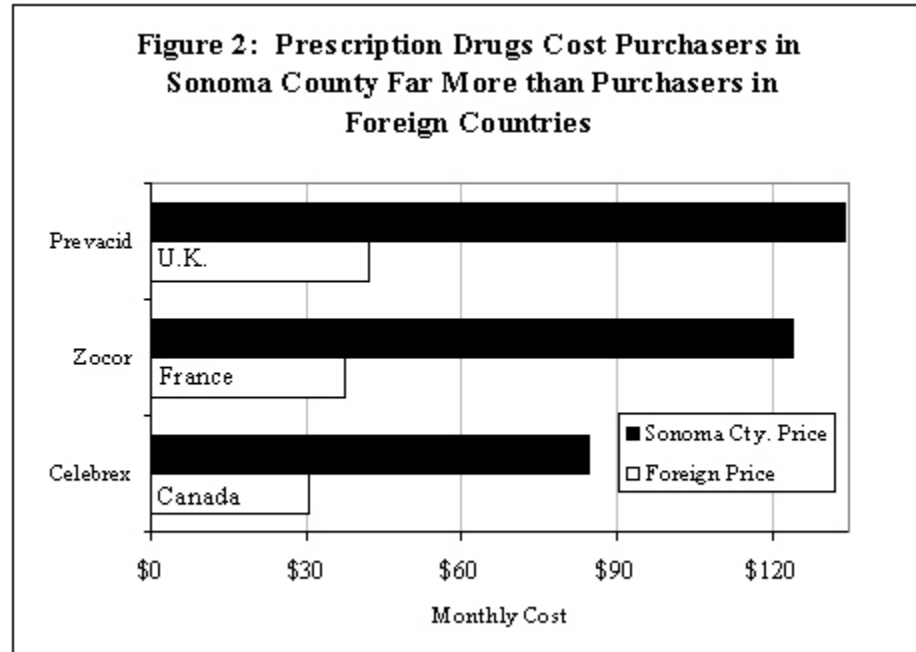


For Some Drugs, Seniors in Sonoma County Pay over Three Times the Price Paid by Purchasers in Other Countries

Zocor, a cholesterol-reducing medication manufactured by Merck, was the third most popular drug used by seniors in 2002. A monthly supply of this drug costs \$123.96 in Sonoma County. In France, a monthly supply of Zocor costs only \$37.20. This is a price differential of 233%. Seniors in Sonoma County without drug coverage must pay almost three and a half times as much for Zocor as purchasers in France.

Prevacid is the popular ulcer medication made by TAP Pharmaceuticals. A monthly supply of this drug costs \$134.26 in Sonoma County. In the U.K., a monthly supply of Prevacid costs only \$42.00. This is a price differential of 220%. Seniors in Sonoma County without drug coverage must pay over three times as much as purchasers in the U.K.

Celebrex is the popular arthritis medication made by Pharmacia and Upjohn. A monthly supply of this drug costs \$84.75 in Sonoma County. In Canada, a monthly supply of Celebrex costs only \$30.53. This is a price differential of 178%. Seniors in Sonoma County without drug coverage must pay almost three times as much as purchasers in Canada. Figure 2.



Overall, uninsured seniors in Sonoma County pay 137% more for Prevacid, 106% more for Celebrex, 98% more for Prilosec, 66% more for Zocor, and 57% more for Plavix than an average purchaser in Canada, Europe, or Japan. The prices of the five drugs in Sonoma County and the average prices in the six foreign countries can be seen in Appendix 1.

Price Differentials Are Substantial in Dollar Terms

The differences in drug prices for uninsured seniors in Sonoma County and foreign purchasers can translate into large dollar differences. All five of the medications analyzed in this report are used to treat chronic conditions and are taken for months or years at a time. As a result, on an annual basis, seniors in Sonoma County will spend hundreds of dollars more than foreign purchasers for each of the five drugs.

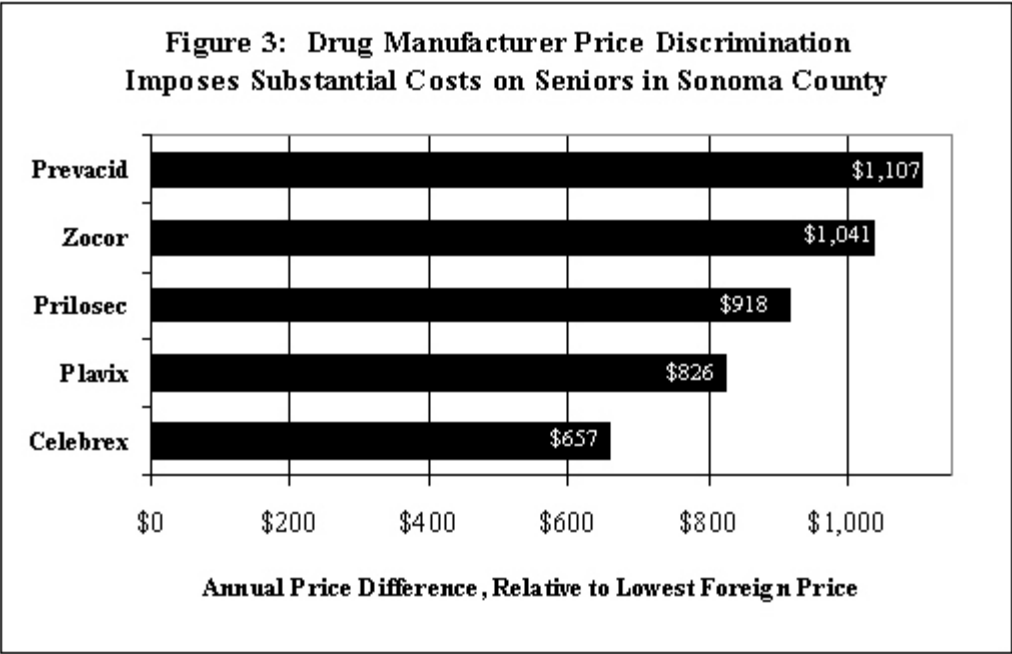
A monthly prescription for the ulcer medication Prevacid costs an uninsured senior in Sonoma County \$134.26 per month. This same amount of Prevacid would cost only \$42.00 in the U.K., a price difference of \$92.26 per month. For a year of treatment with Prilosec, an uninsured senior in Sonoma County will spend \$1,107 more than a purchaser in the U.K.

A one-month supply of Zocor costs an uninsured senior in Sonoma County \$123.96. This same amount of Zocor would cost only \$37.20 in France, a price difference of \$86.76 per month. This means that for a year of treatment with

Zocor, an uninsured senior in Sonoma County will spend \$1,041 more than a purchaser in France.

Similarly, a one-month supply of Prilosec costs an uninsured senior in Sonoma County \$126.60, compared to only \$53.72 in Canada, a price difference of \$72.88 per month. For a year of treatment with Prilosec, an uninsured senior in Sonoma County will spend \$875 more than a purchaser in Canada. For Prilosec, the price difference between the U.S. and the U.K. is even higher than the Canadian price difference. An uninsured senior in Sonoma County will spend over \$900 more than a purchaser in the U.K. for a one-year supply.

Figure 3 shows how much more an uninsured senior in Sonoma County must pay each year for each of the five drugs compared to the prices paid by a purchaser in the foreign country with the lowest prices.



CONCLUSION

This report analyzes the prices of the five most popular drugs for seniors and finds that uninsured seniors in Sonoma County pay significantly more for these prescription drugs than purchasers in Canada, France, Germany, Italy, Japan, and the United Kingdom. While purchasers in these other countries are protected from price discrimination on the part of drug manufacturers, uninsured seniors in Sonoma County have no such protection. As a result, drug manufacturers charge low prices for prescription drugs in other countries, but high prices for the same drugs in Sonoma County. These price differentials result in seniors in Sonoma County paying hundreds of dollars more annually for each of the five drugs than purchasers in foreign countries.

**Appendix 1: Average Prescription Drug Prices in Sonoma County and in Canada,
Europe, and Japan**

Drug	Manufacturer	Quantity	Avg. Foreign Price (Monthly Supply)	Sonoma County Price (Monthly Supply)	Price Differential	
					Dollar	Percent
Prevacid	TAP Pharmaceuticals	30 mg, 30 tab.	\$56.69	\$134.26	\$77.57	137%
Celebrex	Pharmacia and Upjohn	200 mg, 30 tab	\$41.15	\$84.75	\$43.60	106%
Prilosec	Astra/Merck	20 mg, 30 tab.	\$63.89	\$126.60	\$62.71	98%
Zocor	Merck	20 mg, 30 tab.	\$74.69	\$123.96	\$49.27	66%
Plavix	Bristol-MyersSquibb	10 mg, 30 tab	\$81.45	\$127.48	\$46.03	57%
Average			\$63.57	\$119.41	88%	